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WHEN THE GOING GETS TOUGH

Big companies have the luxury of in-house staff and outside consulting, accounting and law firms to give expert advice on how to manage risk and take advantage of opportunities to gain a competitive edge when the recovery inevitably arrives.

Small business owners are more alone and busy putting out fires to stay solvent. It is easy for them to lose perspective. But, as the mainstay of New Zealand you need to stay vigilant, work hard and be clever.

Seven things small business owners should be considering right now:

(1) Take care how you manage expenses

Cost-cutting measures have been a priority for almost all businesses during the economic downturn. Many companies are considering or already have engaged in layoffs, salary cuts and closures. These are difficult decisions that can have an impact on the bottom line and on cash flow. But, beware: cutting costs too aggressively now can make it difficult or impossible for the business to grow in the future. Here are a few suggestions for trimming:

- Negotiate better deals with your company's long-time suppliers
- Renegotiate contracts.
- Keep cash in the bank – ready for an opportunity
- Seek expense management suggestions from your staff and managers – the people who are on the business frontline and may have a unique perspective
- Consider the costs and benefits of outsourcing
- Do a complete review of all of the company's business, property and casualty insurance coverage
- Downturns are a great time to renegotiate existing leases as well as to obtain new space at bargain prices

(2) Ruthlessly collect debt

Be absolutely diligent when it comes to getting your invoices out and your money in. Cash is King! But

more to the point is that if you are owed money and your debtors business crashes you will have little chance of payment and yet you have expended your funds on fuel, maintenance, insurance and wages – all for nothing!

(3) Stay 'on the radar'

In an economic downturn as severe as the current one, there is a tendency to cut advertising and marketing budgets. It seems a cost-effective and relatively painless way to ride out the storm. But previous downturns have proven that reducing visibility with existing and potential customers is far less effective in protecting the business than maintaining or increasing marketing and advertising budgets. Effective marketing and advertising keep you on the client's radar and keep your clients away from competitors. Out of sight in business is clearly out of mind.

The good news is that because of online media outlets like the Internet, email and social networking, marketing and advertising do not have to be expensive to be effective. So spruce up your website, send out email blasts and if you don't know how to Twitter or blog find a young employee who does.

(4) Talk to your Lenders

In a weak economy, many companies become unable to make required payments under their credit facilities, and others face guarantee defaults under their loan or lease agreements.

Consider reaching out to your lender now to engage in a dialogue about your company's position so that it is no surprise later if you need a little help. Plus, you may have more leverage by taking action now to renegotiate new terms before your debt becomes a problem.

(5) Workforce Reductions – last resort, not first

While you may already be operating and managing lean, this environment still may force you to implement a reduction in staff. This decision never comes easily. Layoffs can destroy morale and leave a company in an uncompetitive position when the recovery occurs. There are alternatives

to reducing personnel. Consider alternating work weeks/work hours, hiring and/or salary freezes (or salary reductions), job sharing, and 9 day fortnights.

(6) Seek out opportunities


Even in the face of current economic uncertainty, your company may be well positioned to make moves to capture market share and set the stage for strategic growth.

Your company may be well placed to strike favourable deals with other companies through joint ventures and strategic partnerships. You should consider opportunities for growth through acquisition. While acquisition financing from lenders and investors may be limited, that could soon change. Do not overlook the opportunity for senior staff and management 'buy ins'.

(7) Offer Equity-Linked Compensation

Although many companies are focused on reducing workforce levels, business owners should not lose sight of the need to retain the best employees who might otherwise be poached by competitors. Equity-linked compensation is a proven golden handcuff for key employees. Often, this compensation comes in the form of stock options or share offers. Such an offer may go a long way in keeping critical employees on board and motivated.

Summary: Don't Go It Alone

There is a tendency among small business owners to try to solve all of the problems associated with the economic downturn on their own, without seeking outside help. No single person has all of the answers and many operators are better at dealing with economic growth than contraction. For both business and psychological reasons, it is crucial that a business owner reach out to family, employees, other business owners, and independent advisors. Taking advantage of all the wisdom out there increases the chances that your decisions will be effective. 



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